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SUBJECT: GUINEA-BISSAU: CASHEWS: INFORMATION FOR USITC STUDY ON
U.S.-SUB-SAHARAN AFRICA TRADE AND INVESTMENT

REF: STATE 146622

¶11. (SBU) SUMMARY: Two-thirds of Bissau-Guineans depend upon cashews for their livelihood. Cashews constitute Guinea-Bissau's primary export, but only two or three percent of total production is processed in the country. Most of the remainder is sold to India for processing. USAID and OPIC had an enormous impact on revitalizing the cashew sector following the 1998-99 civil war, and in 2005, production totaled approximately 100,000 tons. American buyers and investors are active. However, improper drying damaged Guinea-Bissau's reputation with buyers, and GOGB insistence on setting a reference price above the world market price in 2006 may yet lead to a food crisis. The Embassy organized a full-day seminar on the sector last month, building on USAID's efforts to create a dynamic African Cashew Alliance. At the seminar, we pushed for allowing market forces to set prices -- a message that the Ambassador reiterated during her September 27-28 visit. END SUMMARY.

¶12. (U) The following information is provided in response to questions in reftel and the interest expressed by the USITC for information on Guinea-Bissau's cashew sector. Washington agencies should keep in mind that there is currently no U.S. Embassy in Bissau, nor any full-time official American presence. Our ability to support TDY travel to Guinea-Bissau is limited. In general, responses cover calendar year 2005, but where possible we have included information regarding events in 2006.

RECENT ECONOMIC DEVELOPMENTS

¶13. (U) In 2005, Guinea-Bissau's GDP growth is estimated to have recovered from an average of 0.5 percent for 2003-2004 to 3.5 percent, thanks to a good agricultural performance. Average consumer price inflation rose to 3.4 percent from 0.8 percent in 2004 as a result of higher import prices on oil and rice. Guinea-Bissau's budget deficit (including grants) was lower than programmed at 12 percent of GDP, compared to 15 percent in 2004, owing to stronger than projected tax revenues and lower non wage expenditures. The current account deficit worsened in 2005 because of a large increase in imports and a drop in official transfers and private remittances. In 2005, earnings from cashews, the main export crop, were boosted by a substantial increase in world prices as well as a further expansion in production. However, as noted below, in 2006, export revenue from cashews dropped due to poor GOGB policies.

¶14. (U) The macroeconomic outlook for 2006-7 is mixed. Problems in

the cashew sector will have a major impact on incomes and export earnings. At the same time, the GOGB has begun to implement some limited economic reform measures. There are indications of heightened interest by foreign investors, particularly to support petroleum exploration and tourism. An international donors' conference on Guinea-Bissau is to be held in Geneva in November 2006. Additional donor assistance should help speed reforms and bring additional revenue into the country, potentially impacting broad range of economic sectors.

CASHEW SITUATION

15. (SBU) Cashews have been considered the "gold" of Guinea-Bissau with an annual production of approximately 100,000 metric tons of raw nuts. About one million people earn their livelihood from the sector, and traditionally, the quality of Guinea-Bissau's cashews is considered good. However, in 2006, the GOGB gravely interfered in the cashew sector. During the 2006 cashew season, the GOGB established a minimum gate price higher than the world market price. Prime Minister Aristides Gomes declared the reference value of raw cashews at CFA francs (CFAF) 350 per kilo (approximately USD 0.70), CFAF 150-200 above the world market price, in order to help the farmers increase their revenues, according to the government's Commercial Director in the Commerce Ministry. However, the Government did not subsidize the price difference. (COMMENT: Reportedly, the GOGB's goal was additional tax revenue from the higher reference value. Export taxes on raw cashews are 8 percent, and cashew exports account for almost 93 percent of all exports. END COMMENT.)

16. (U) Post-harvest, government inspectors were sent into the countryside to ensure that farmers did not sell raw nuts below the government price. Cashew shellers attest that when farmers were caught selling their nuts to buyers at below the government's

DAKAR 00002418 002 OF 003

declared price, they were fined, harassed, and sometimes had sacks of rice (GB's main food staple) taken away as "fines" by the inspectors. Such intimidation successfully prevented most farmers from selling their nuts at market prices. However, buyers refused to pay more than the world market price. Consequently, the nuts went unsold until the GOGB, at the end of the season, allowed the farmers unfettered access to the market. Unfortunately, the farmers, in desperate need of money to buy rice and other basic goods, released their raw nuts onto the market at the same time, pushing prices down below CFAF 100 per kilo. Some farmers have pursued a long-standing tradition of barter, raw nuts for rice, but now must offer more nuts for less rice.

17. (SBU) The GOGB's policy error has seriously damaged economic growth, which may result in food shortages. It is estimated that only 60,000 tons of raw nuts have been sold and that 30,000 tons of 2006 raw nuts remain, sitting in warehouses which do not provide adequate environmental control for the nuts to retain their value. Guinea-Bissau does not produce enough rice or any other food staple to feed its population; so those who rely on cashews to make a living (about 80 percent of families nationwide) could have difficulty in purchasing enough food in the coming year. Earnings from next year's crop are also expected to decline because quality will deteriorate if farmers mix the new crop with the 2006 crop remaining on hand.

18. (U) Another factor that hurt producers in 2006 was the fact that a significant amount of the 2005 harvest was not dried properly; so buyers had to throw away large amounts of moldy cashews and thus they were less willing to buy Guinea-Bissau cashews this year. Only 50 percent of last year's buyers came back in 2006, decreasing competition for Bissau-Guinean nuts.

19. (SBU) The GOGB requires foreign cashew buyers to use free on board (FOB) terms, and buyers claim that Guniea-Bissau's cashew export taxes are the highest export taxes in Africa (approximately 50 CFAF/Kg). There is one main growers association, the National Growers Association of Guinea-Bissau (listed below), but it is not well organized in the field. They do not have experience with quality training or information on world market prices, and

therefore have very limited ability to make informed decisions on whether to sell or at what prices. A few organizations, including the USG, the World Bank and NGOs, are working with the Government to eliminate interference in cashew pricing.

¶10. (U) Exports of processed cashews are tax-free, but processed cashew exports represent only 2-3 percent of Guinea Bissau's production. While Guinea-Bissau's processing industry is limited, it is improving in efficiency, quality, and international marketing, in large part due to USAID's contracts with Enterprise Works and participation in the relatively new USAID-coordinated African Cashew Alliance (ACA). An American company, Rota International (RI), managed by Guida Blacken in Bissau, exports processed organic nuts to the American market. It most recently shipped 16 tons of processed nuts to Norfolk, Virginia. The processed cashews were sourced from RI's own small cooperatives of cashew processors and from two larger scale shellers: Si-Cajou and Agri-Bissau.

¶11. (U) With technical assistance and credit assistance from the local foundation Fundei, several processing units have been established since 2000. Their capacity ranges from 240-1000 tons per year with a total capacity of around 5,000 tons. Big units like Sicaju (1,000 tons) produce for the export market. Smaller units Emicor and Djonde Lda mainly produce for the domestic and regional markets, though they export occasionally in a joint effort with others (including Rota International and Global Trading). However, all factories report the same problem: a limited number of banks and the lack of financing to purchase raw material.

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